Report of the Task Force on State Economic Development

The Johns Hopkins
University
Center for
Metropolitan
Planning and
Research
Shriver Hall,
Homewood Campus
Baltimore,
Maryland
21218

CENTER FOR METROPOLITAN PLANNING AND RESEARCH

THE JOHNS HOPKINS UNIVERSITY

REPORT
OF THE
TASK FORCE
ON
STATE ECONOMIC DEVELOPMENT

March, 1978

SUMMARY

The economy of the State of Maryland is undergoing significant structural change. Decline of manufacturing activity and large increases in state and local public sector employment bring into serious question the ability of the state to offer job opportunities to its citizens and to maintain a healthy fiscal position in the future.

Maryland's economy is critically shaped and driven by many forces outside the purview of the state's leaders: differential regional growth patterns, monetary policy, federal investment policies, business cycles, etc. To a significant extent, its fate is linked to that of the region of which it is a part. Appreciable departure from regional trends is evident among the states, however, indicating that competitive state advantages and disadvantages do exist. For example, Maryland has suffered greater percentage decline in manufacturing employment than the declining region of which it is a part.

Inquiry into the operation of Maryland's economic development programs and comparison with programs in other states indicates that the state is poorly organized to evaluate its economic condition, to discover trends in that condition, to identify strategies to reverse observed negative trends, and to take concerted action to maximize opportunities which might be available.

Strong, informed leadership on the part of Maryland's chief executive is called for to analyze the state's deteriorating position and to undertake an economic development program tailored to its unique

problems and opportunities. Priority attention by the Governor should bring a coordinated focus to a presently jumbled array of policies and programs: economic analysis, marketing, efforts to retain existing business and foster expansion, financial assistance, local development activities, environmental regulation, freight rates, and taxation. Successes and failures with different strategies have been documented in other areas. Rather than suggesting specific program elements or structure, which may vary in effectiveness with the context, the Task Force has presented a recommended approach to economic development based on information gathered regarding successful programs elsewhere and analysis of the state's economic condition. The leaders of the State of Maryland must act to determine the best course of specific action for the State and set out upon it. Failure to do so can only result in unacceptable continued decline.

CENTER FOR METROPOLITAN PLANNING AND RESEARCH

Jack C. Fisher	Director
Robert W. Hearn	Associate Director

EXECUTIVE COMMITTEE OF THE POLICY COMMITTEE

William P. Coliton, CHAIRMAN
Herbert M. Bank
Leon Bridges
Gordon H. Dalsemer
Samuel T. Daniels
Eugene M. Feinblatt
Jack C. Fisher
William G. Groben
Robert W. Irving
William A. Kroh
Milton H. Miller
Virginia L. Nelson
J. Richard O'Connell
Most Reverend J. Francis Stafford
M. Gordon Wolman

TASK FORCE ON STATE ECONOMIC DEVELOPMENT

J. Richard O'Connell, CHAIRMAN
Joseph G. Anastasi
David W. Barton, Jr.
H. Lee Boatwright, III
Leon Bridges
Raymond C. Bryant
Gordon H. Dalsemer
Walter A. Frey, III
William G. Groben
Sigmund M. Hyman
William S. James*
Raymond J. Landon
Harry J. McGuirk
Richard G. Macgill, Jr.
Milton H. Miller
Robert L. Weinberg
George S. Wills
CHAMBER OF COMMERCE OF METROPOLITAN BALTIMORE
Christopher C. Hartman
GREATER BALTIMORE COMMITTEE
George B. Hess, Jr.
MARYLAND STATE CHAMBER OF COMMERCE
John H. Funkey

RESEARCH STAFF

David Greytak	Principal Research Scientist - Economics
Henry P. Henderson	Research Associate - Planning
Marsha R. B. Clark	Research Assistant - Planning
Susan M. Briscoe	Research Assistant - Planning
C. Lynn Cowan	Research Assistant - Political Science

*Dissenting

CENTER FOR METROPOLITAN PLANNING AND RESEARCH

THE JOHNS HOPKINS UNIVERSITY

REPORT

OF THE

TASK FORCE

ON

STATE ECONOMIC DEVELOPMENT

March, 1978

CONTENTS

PREFACE

The Policy Committee of the Center for Metropolitan Planning and Research is a group of business and civic leaders which investigates public policy issues in the Baltimore metropolitan area with the support of the Center research staff. Early in 1977 the Policy Committee determined that despite the proliferation of public and private sector committees, ad hoc groups, and task forces set up to study economic development in Baltimore, inadequate attention had been paid to the development policy issues at the state level which profoundly affect the future of the metropolitan area. Economic development was felt to be an appropriate issue for investigation because its components - jobs and taxes - are of vital importance to the future of the region. A need for better public understanding of the national and regional economic trends affecting the state and the factors influencing the location of economic activity, as well as for comparative analysis of Maryland's neighboring states, was identified.

The Task Force on State Economic Development was established by the Policy Committee in April, 1977. Its charge was to increase informed awareness of economic development as an issue and to analyze the constraints to economic development in Maryland. As the investigation proceeded, it became increasingly clear that the economy of the state was undergoing significant change and required the focused attention and priority of the state's leaders. The Task Force has accordingly assumed a third charge - to provide the gubernatorial candidates and the Legislature with information documenting the status and prospects of the Maryland economy and the programs other states have undertaken in response to similar situations.

The Task Force findings and recommendations reported here are based on five staff working papers, which should be considered companion reports to this one:

(1) Susan M. Briscoe, "Financial Assistance Programs in Maryland," Occasional Paper, Center for Metropolitan Planning and Research, February, 1978, 40 pp.

(2) Marsha R. B. Clark, "The Contribution of Economic Development Agencies to Economic Growth and Revitalization in Seven States," Occasional Paper, Center for Metropolitan Planning and Research, February, 1978, 141 pp.

(3) David Greytak, "Personal Taxes Compared Among Eight States," Occasional Paper, Center for Metropolitan Planning and Research, October, 1977, 31 pp.

(4) David Greytak, "The Status and Prospects of Maryland's Public and Private Sectors," Occasional Paper, Center for Metropolitan Planning and Research, January, 1978, 79 pp.

(5) Henry P. Henderson, "Environmental Regulation and State Economic Development: A Preliminary Exploration of Relationships in a Comparative Framework," Occasional Paper, Center for Metropolitan Planning and Research, February, 1978, 42 pp.

The reports are referred to in the text by number as listed above and are available from the Metro Center at a price of $20.00 for the set.

A survey which used Baltimore business to question other businessmen about the rationale for 15 relocations into states surrounding Maryland was undertaken by local banker Richard G. Macgill, Jr. The results are reported herein.

I. THE PROBLEM AND ITS IMPLICATIONS

Maryland is certainly not alone in experiencing the economic slowdown described in the 1977 "Status and Outlook" annual report on the Maryland economy of the Department of Economic and Community Development.

The decline of the entire northeast quadrant of the United States in employment, population and income growth has been well documented and the subject of considerable public policy discussion at the national level. No manufacturing industries experienced employment growth between 1970 and 1975 in the sixteen states of the northeast. Total employment increased only 2% (2, p. 4). Population and per capita income growth have slowed considerably (4, p. 26).

A. Maryland is participating in this decline, despite the efforts of the state's development agency.

Maryland manufacturing employment declined by 41,200 jobs between 1970 and 1975, a loss of 8,670 jobs over and above the 12% decline in manufacturing employment suffered by the northeast, including Maryland, as a whole. Thus Maryland's total manufacturing employment loss was 15.2% (2, p. 35). It is apparent that Maryland industrial employment has declined to a greater extent than can be explained by regional trends alone.

The non-manufacturing private sector, in which employment grew 58% between 1960 and 1970, experienced a considerable slowdown in the seventies, growing only 14% between 1970 and 1975 (4, p. 8).

Above-national average increases in state and local government employment have offset manufacturing employment losses so that Maryland's total employment has continued to grow. State and local government employment in Maryland increased by more than 25% between 1970 and 1975, while the private sector employment increase was 10% (4, p. 5).

Population growth has slowed dramatically in Maryland in the past five years. Between 1960 and 1970, the number of people in the state grew 26.5%, 47% of which was the result of net in-migration. Between 1970 and 1975, the population increased only 4.4%, only 21% due to in-migration. 79% of the population increase was the result of natural (births less deaths) increase (2, p. 20).

Personal income per capita grew in Maryland by 84.1% between 1960 and 1970, slower than in the southeastern states, but above the national average. Between 1970 and 1975, personal income grew 49.4%, slightly above the national average of 47.1% (2, p. 26).

A state development agency is charged with improving economic vitality through attraction of new employment opportunities and preservation of existing jobs. Its effectiveness is difficult to assess, as improvements and declines in a state's economy may be partially attributed to various causes, many beyond the influence of state policy. Business cycles, monetary policy, public investment, and regional shifts are among the national phenomena which profoundly affect the state's economy.

The method applied in this study was one which separated out the impact of regional trends on state employment levels, leaving the number of jobs lost or gained as the result of the state's own competitive position. Certainly the state development agency is only one component of the competitive position, but it is the one over which state leaders have most discretionary power. Natural advantages and disadvantages, such as climate, location, and natural resources, cannot be modified by state decision-makers. The state's leaders can, however, actively seek to make the state visible and attractive for new and expanding development, to lobby against federal programs and policies which would adversely affect its competitive position, and to conduct its own budgeting, construction, service, and regulatory activities in an efficient and equitable manner.[1]

In terms of this kind of regional shares analysis, Maryland, and by inference its development agency, has performed poorly. Manufacturing employment losses in the state have exceeded declines in the Middle Atlantic region (2, p. 130) and in the northeast as a whole, as described earlier.

Although it is not possible to link results to specific state actions, the regional shares analysis shows that other states have been able, with the help of their development agencies, to perform better economically than the regions of which they are a part. Ohio,

---

[1] The Commonwealth of Massachusetts, Executive Department, "An Economic Development Program for Massachusetts," August, 1976, pp. 5-6.

which presented a mixed picture relative to the northeast between 1960 and 1970, managed to better the regional record in most industries between 1970 and 1975. Massachusetts is the most striking northeastern example of a real reversal in trend: from a dire situation in the 1960-1970 period, the state has significantly bettered its position relative to the region between 1970 and 1975 in almost every industry (2, p. 8). The City of Boston gained 2,900 manufacturing jobs in 1976, its largest industrial employment increase in 25 years.[2] Among the Middle Atlantic States, Pennsylvania has demonstrated its ability to minimize its participation in regional decline and in the South Atlantic area, North Carolina's growth has exceeded regional growth (2, pp. 129-135).

This analysis suggests that serious study of economic development takes into account the fact that states prosper or decline as their regions do and that the extent to which a state does or does not participate in regional economic trends may be a more accurate indicator of development agency impact than the number of companies which move to or expand in a state. In this regard, it appears that Maryland faces strong competition for residents and employment opportunities from not only the southeastern and southwestern "sunbelt" states, but also from other northeastern states that are developing vigorous programs to attract and retain economic activity.

---

[2] Dennis M. Ettlin, "Boston's Employment in 1976: The Largest Industrial Jobs Gain in a Quarter Century." Boston Redevelopment Authority Research Department, September, 1977, p. 2.

The factors influencing economic growth in any state or region are extraordinarily complex and often unique; no common prescription can be devised. A desired result cannot be promised in the recommendation of specific actions, but this should not be adopted as an excuse for inaction; rather, it challenges the state's leaders to evaluate its economic condition, the dynamics of that condition, and opportunities which might be available for growth.

B. The verified implications of changing economic structure for Maryland's fiscal situation are serious.

Increases in state and local government employment have put increasing pressure on state and local tax bases. Relative to other states, governments in Maryland are exploiting their tax bases to a greater extent. State tax capacity is an analytical measure estimating the revenues the state and local governments would raise if they used all tax sources at the national average rate relative to personal income. In these terms, Maryland has imposed taxes to the extent that, at the beginning of 1976, only 3.6% of its tax capacity was unused. Nine other states made greater use of their taxable capacity, six of which are located in the troubled northeastern quadrant of the country. Most southern states had underutilization rates three to five times lower than Maryland's (4, pp. 54-57).

Between 1965 and 1971, Maryland state and local government revenues from their own sources increased 1.60% for each one percent increase in personal income. The comparable national figure was 1.48%.

Between 1971 and 1976, however, revenue responses to income growth fell to 1.22% in Maryland and 1.20% in the nation (4, p. 17).

The pattern of relatively slow growth in income and state and local government revenues in Maryland has not been matched by expenditure restraint. Per capita expenditure in Maryland approximated the national average in 1966. Between 1966 and 1971, per capita state and local government expenditures increased 64.7% in Maryland while those of all state and local governments nationally increased 54.2%. Between 1971 and 1976, Maryland's per capita spending grew 72.3%, greatly exceeding national growth of 26.9%. By 1976, Maryland's rapid growth in expenditures per capita resulted in spending exceeding the national average by about 13% (4, pp. 17-19).

In Maryland, between 1966 and 1971, state and local per capita expenditures increased 1.43% for each one percent increase in personal income; nationally, this figure was 1.44. But while state and local governments across the nation appear to have found ways to reduce their expenditure growth in the 1970's, Maryland has been able to do so to a much more limited extent. Nationally, expenditures increased 1.10% for each percent increase in income while in Maryland, spending increased by 1.25% for each percent increase between 1971 and 1976 (4, p. 19).

The state's own estimates of its revenues and expenditures indicate that Maryland will be unable to add to its surplus after 1981, the result of expenditures projected to grow at a rate 20% faster than revenues (4, p. 74).

An independent study by the Advisory Commission on Intergovernmental Relations has interpreted the rates of growth and the levels of tax burdens in the states in terms of a measure analogous to the medical profession's systolic-diastolic reading: fiscal blood pressure. In these terms, Maryland's tax system has been characterized as having "fiscal blood pressure" which is high and rising, similar to other states in the northeast and midwest (3, p. 24).

The changing structure of the Maryland economy thus raises questions about its ability to maintain a healthy fiscal system. The decline in manufacturing employment and the limited possibilities for attracting significant new manufacturing industries to Maryland (see succeeding sections) are of profound importance in this regard. A recent study of Washington, D.C. which traced both business and personal tax revenues to the business sector of origin showed that jobs in different sectors of the economy generated widely different amounts of taxable base and tax revenues, i.e. a manufacturing job contributed about $790 to tax revenues while a job in services added only $412. While the economies of Maryland and Washington differ greatly, the implications of such differences are clear: from the point of view of tax revenues and fiscal capacity, one job is not the same as another (3, pp. 25-26).

II. INVENTORY OF THE STATE'S APPEAL FOR BUSINESS AND INDUSTRY

Maryland's economic and fiscal health has been shown to be in jeopardy. Consideration of remedies must include an assessment of the extent to which Maryland offers an appealing location to business and industry, either that which may consider relocating to the state or that which is already present here and may consider leaving. In terms of the factors which are generally acknowledged to influenced the location decisions of business and industry, Maryland fares poorly.

A. Consumer markets.

Maryland has traditionally been a strong consumer market area, having a dense, fast-growing population with expanding incomes. However, population growth has slowed dramatically in the past five years, as indicated earlier. In the 1960's, Maryland's share of national personal income grew and the gap between Maryland's per capita income and that of the nation widened. During the seventies, however, Maryland's share of the nation's personal income remained almost constant, and its level of per capita income relative to the national average varied greatly from year to year (4, pp. 10-11). In terms of growth in non-farm income, Maryland has dropped from a national ranking of 18th between 1960 and 1970, to 32nd between 1970 and 1975, and most recently, to 40th between 1973 and 1977.[3]

---

3 U.S. Department of Commerce, Bureau of Economic Analysis, "State Personal Income: Fourth Quarter 1975 - Second Quarter 1977." Washington, D.C., 1978.

B. Intermediate markets.

The Macgill survey[4] of businesses which have moved to Maryland's competitor states found that a large number of executives interviewed gave priority to the companies' interindustry linkages in the location decision. Many had moved to follow large industrial customers or su-pliers.

Maryland's dramatic decline in manufacturing has seriously eroded its appeal to business and industry based on such interindustry linkages. By 1975, only 16.1% of the non-farm workers in Maryland were engaged in manufacturing, a substantial margin below the surrounding states and the national average of 23.8%. The decline has been led by downward employment trends in the chemicals, apparel, and primary metals industries (2, p. 28).

C. Transportation.

The long run decline in transportation costs brought about by the development of the interstate highway system and motor truck freight, as well as the use of such techniques as piggybacking of truck and railroad freight, has stimulated the dispersion of economic activity. The historic concentration of manufacturing in the northeast and midwest has been substantially lessened as the ease of reaching

---

4 See appendix.

these markets from other parts of the nation has increased and as these markets have declined. In terms of transport accessibility, virtually all major markets in the northeast and midwest are more accessible by truck and rail than the growth areas south of North Carolina and West Virginia. For example, shipping time from Baltimore to Detroit by truck and rail is shorter than to Atlanta while shipping time to Louisville is 50% greater than to Cleveland (4, p. 30). Maryland's traditional advantages of proximity to the midwest and northeast are thus being eroded.

In addition, the freight rate structure which is applied to interstate shipment of goods by rail, water, and truck operates on the basis of point of origin of the shipments and appears to work to Maryland's disadvantage. Generally, the rate structure is such that shipments destined for the north are more expensive if they originate in Maryland than if they originate in southern states, as are shipments to the south. While there are a number of specific commodities which do not conform to this general pattern, particularly when shipped by water or rail, the high cost of truck shipments originating in Maryland relative to the south is almost universal (4, pp. 35-36).

D. Labor.

Macgill's survey found labor issues to be dominant in discussions with businessmen who had relocated their companies. Wage rates, unionization rates and union activity all figured prominently in the companies' evaluations of alternative locations. Four stated that lack of a right to work law had automatically eliminated a state from consideration. Obviously, this would have ruled out a Maryland location. To other companies, however, the availability of labor with the specific skills being sought, or the opportunity to get vocational education aid in training, was of greater importance than prevailing wage rates. As would be expected, these latter companies tended to be engaged in more technologically sophisticated activities than the former.

Wages are high in Maryland, particularly when compared to the southeastern states. Average hourly earnings of production workers in Maryland began in 1970 to increase more rapidly than in the nation as a whole with the result that in 1975, Maryland's average manufacturing wage exceeded the national average by about 6.5%. In Baltimore, the state's major labor market area, production worker earnings exceeded the average of all southern metropolitan areas by more than 15% and appear to be increasing more rapidly than in most southern labor markets (4, pp. 37-39).

Labor costs, a measure which includes employee benefits in addition to wages, are also high in Maryland. Labor cost per employee was higher than the national average in 1974 and 1975 (4, p. 43).

More importantly, Maryland appears to be losing the productivity advantage which has historically accompanied higher labor costs in the state. The productivity (value added per employee) differential between Maryland and the nation has been steadily narrowing, and, in 1975, labor productivity in Maryland fell below the national average. The import of this decline in relative productivity can only be determined in conjunction with labor cost. Labor cost per employee in Maryland is higher than the national average and productivity per dollar of labor cost in Maryland is below the national average. Indeed, the productivity per dollar of labor cost differential between Maryland and the higher national average is greater than both the corresponding wage rate differential and the productivity differential (4, p. 41).

Maryland spends more than the national average on education, whether figured on a per pupil or per capita basis. However, a much smaller percentage of its students are enrolled in vocational education programs than in surrounding states and the state and local governments spend a smaller portion of their total education budgets on vocational education than do the Carolinas, for example (2, pp. 55-56).

E. Raw materials.

Maryland has few industrially significant natural resources, having been more important historically as a mineral processor than a mineral producer. Coal deposits in Western Maryland are the exception but are just beginning to be significantly exploited (2, p. 15).

F. Energy.

Natural gas is not available to new industrial customers in Maryland. However, Maryland is not alone, as it appears that only one of every three utility companies in the nation is accepting new industrial gas customers and only about 15% of those accepting customers do so on an uninterruptible basis. In this light, the operations of Maryland's utilities do not appear to be greatly at odds with nation-wide practices (4, p. 44).

When gauged against the costs in other areas, electricity, on which Maryland relies heavily, tends to be somewhat less expensive in the state than in the New England and Middle Atlantic states. However, in comparison with other regions, and in particular with the southern and western regions, electricity bills in Maryland are high for all types of customers (4, pp. 50-51).

G. Environmental regulations.

In the Middle Atlantic region there does not appear to be a pattern whereby Maryland or another state has obtained a statutory system of environmental regulation considerably more stringent than its neighboring and competitive states. While its controls may exceed those of the other states in one area, they may be less harsh than those of other states in other areas, i.e. mining controls or coastal zone protection (5, p. 27).

On the basis of legislative statutes, environmental regulations are developed and enforced by a variety of state and local agencies. The perception and reputation of Maryland's regulations and the enforcement of these regulations among businessmen surveyed are that they are harsher than those in competitive states. Whether or not it can be substantiated by fact, this reputation is a serious disadvantage to the state in its efforts to attract new economic activity and retain that which it has. Maryland is perceived as a state in which the burden is on business and industry to overcome an initially unwelcoming attitude, a perception which is not improved by the fact that here, as elsewhere, federal, state, and local environmental policies and practices are not coordinated (5, pp. 31-32).

Maryland does little to use its public sector programs and coordinating ability to help businesses to meet sound environmental standards. Industrial revenue bonds for pollution abatement equipment are the exception but are universally available for this purpose and hence offer little competitive advantage (2, pp. 114-115).

H. Amenities.

As incomes rise, amenities such as climate become more important in individual and business location decisions. Maryland does not enjoy the benefits of climate associated with the southeastern and southwestern states (4, p. 36).

Maryland has a relatively well-protected environment, however, and spends a relatively large amount of its resources on recreation (4, p. 62). The natural attractions of the Eastern Shore and Western Maryland are assets for the development of tourism which, like manufacturing, is a basic export industry. However, there are access problems associated with both these areas which presently limit the extent to which they can be exploited.

To the limited extent that non-economic factors influence location decision-making, Maryland is appealing because of its strong cultural, higher education, and health facilities. Such quality of life indices are negatively affected, however, by the high crime rates in the state. Maryland has above-average crime rates in all but one of the seven index crime types, unlike its neighboring states. It also suffers from a reputation for political corruption which negatively colors the state's image for potential new residents (2, p. 59).

I. Taxes.

Maryland's total tax burdens, the revenues it raises from its own sources as a percentage of personal income in the state, not only exceed the U.S. median but are higher than four-fifths of the states, including all but five states in the industrial Great Lakes and north-east regions, areas of traditionally higher tax burdens than the southern states. In only six of the fifty states have tax burdens increased more rapidly in the past ten to fifteen years. None of the states with more rapidly increasing tax burdens is in the growing south and two of the northern states whose tax burdens have grown more rapidly than Maryland's, Delaware and New Jersey, did not impose taxes as heavily as did Maryland (4, pp. 50-54).

Other studies[5] have found the business tax portion of Maryland tax burdens to be relatively low. However, some elements of establishing a

5 Chamber of Commerce of Metropolitan Baltimore, The Business Tax Climate In Maryland. A report of the Commission on Governmental Efficiency and Economy, March 8, 1977.

business in Maryland, notably the property transfer tax, are comparatively high (3, Appendix D).

Maryland's personal tax burdens are among the highest in the country. With the exception of the lowest of six income levels, where the difference is about 23 percent, Maryland state and local taxes as a percent of family income exceed their national counterparts by an amount which is never less than 33 percent, and which increases as income increases (3, pp. 19-20).

J. Level and cost of public services.

In full-time equivalent state and local government employment per 10,000 population, Maryland equalled the national average in 1970/71 and exceeded it in 1975/76. This implies that, relative to other states, Marylanders have been provided with relatively high and increasing levels of public service.

The costs of public service are comparatively high in Maryland: state and local employees earned average wages greater than the national average and earned the highest average wages in 1970/71 and 1975/76 of the surrounding states. Similarly, Maryland total personal service expenditure per full-time equvalent employee, which includes non-wage personnel costs, exceeded the national figures and those for neighboring states (4, p. 66).

Service costs have been increasing with little apparent relationship to demand, thus it can be expected that they will continue to grow even if levels of service are held constant (4, p. 71).

K. Operation of development agency.

Maryland's state development agency has not been effective in combating private sector employment decline, which has exceeded losses in the northeast as a whole and among the Middle Atlantic states (see Part I).

The governors of Maryland have failed to provide consistent leadership for coordinated efforts to improve the vitality of the state's economy. The governor has the responsibility and the power to set priorities through the executive budgeting process and to arbitrate in conflicts among various public purposes. In states such as South Carolina, Virginia, Pennsylvania, and West Virginia, the governors have been in the forefront of efforts to attract new economic activity and have set a tone favoring economic development which pervades their administrative agencies (3, p. 65, 69).

As a result of the absence of executive leadership, Maryland lacks a comprehensive and articulated economic development policy which specifically addresses the state's changing economic structure, balances economic and environmental concerns, and provides for effective involvement by local governments. There is little development coordination within state government, between state and local governments, and between state government and the private sector. There is no mechanism for joint formulation of direction and focus by the governor and the state agencies whose activities most directly impact economic development: Economic and Community Development, Transportation, Natural Resources, Budget and Fiscal Planning, Health and Mental Hygiene, State Planning, etc. In a state where local governments have a great deal of autonomy and act most often independently to encourage or discourage economic growth, state government has been largely unsuccessful in providing anything more than technical assistance in its dealings with the local jurisdictions. Until very recently, little use was made of private sector leadership on the state level to further Maryland's economic development goals. The State Chamber of Commerce has just been called on to participate in identifying present impediments to the creation of an attractive business climate in the state. Virginia and South Carolina use private sector advisory groups in their successful efforts to attract new business and industry (2, pp. 67-70).

The monitoring and analysis of economic trends done by the State of Maryland is not publicly brought before decision makers and the states' citizens on a continuous basis. The surprise and dismay with which Anastasi report's[6] warnings about the future health of the state's economy were greeted bear eloquent witness to the need for greater availability of economic information and analysis (2, p. 93).

National Association of State Development Agencies figures show that Maryland spends relatively little on economic development. In

---

6 Department of Economic and Community Development, <u>The Maryland Economy: Status and Outlook, 1976-1977</u>, Annapolis, 1977.

per capita terms, a measure of the priority given the function compared to other state purposes, Maryland spends least of the seven surrounding states examined. Per capita measures are useful in correcting for differences in population in the assessment of effort, but in real terms, state development agencies compete nationally and internationally for new business and to retain existing business as fifty relatively equal salesmen, and the total budgets they have at their disposal are indeed significant. Once again, Maryland is at a disadvantage. With the exception of Delaware, Maryland's total spending for economic development is least of its competitive neighbor states (2, pp. 81, 83).

The quality of economic development personnel is a reflection of the priority given the function by the governor. Salaries are particularly important for the agency directors and industrial development representatives, who must be attracted from the ranks of industrial realty, Chamber of Commerce development work, and other private sector positions. It is difficult to see how salaries ranging from $14,000 to $23,500, with as many as twenty incremental steps in between, provide an attractive incentive to high caliber personnel, but most of the state agencies, Maryland included, offer just that. Only Virginia offers its industrial development representatives starting salaries above $15,000 (2, p. 76).

In the absence of a state development policy, Maryland lacks a focused, targeted approach to attracting new business and industry to the state. The state development agency has only recently received budget approval for opportunity studies to use in targeting, and has only one industrial development representative, recently hired, who travels around the United States developing contacts with companies which may consider relocating to Maryland (2, p. 101).

Maryland also lacks a strong focused program to retain existing business and industry and help it expand. Two staff members of the Office of Business Liaison concentrate on existing business needs and 50 per cent of MIDFA's (Maryland Industrial Development Financing Authority) loan guarantees go to expanding businesses within the state. Lacking is a targeting approach which would identify key existing employers and tailor public assistance to their needs (2, p. 96).

Maryland has not been successful in attracting significant foreign investment. It has recently established an office in Brussels which may, if successful, reverse this situation. Pennsylvania has benefitted from a vigorous international effort, drawing heavily on U.S. government assistance, and is now third in the nation in the number of foreign-owned businesses operating in the state (2, pp. 109-110).

L. <u>Financial assistance programs</u>.

Maryland's public sector financial assistance programs are unfocused and underused. In the absence of a guiding state development policy, the financial assistance programs, consisting of industrial revenue bonds, the Maryland Industrial Development Financing Authority (MIDFA), and the Industrial Land Act, operate responsively on a case by case basis. There is no policy for targeting financial assistance to businesses and industry which are considered critical to the state's economy. There is no coordination between the local government's issuance of industrial revenue bonds and the state's programs and policies. More significantly, the state's primary financial assistance vehicle, MIDFA, is underused. Only 36 % of the resources of this loan guarantee program are in use at the present time (1).

All of Maryland's public sector financial assistance programs depend on the participation of the local banks. Particularly in the case of MIDFA, adequate incentive to these private lenders is not offered and thus their continued participation may be in doubt. The Pennsylvania Industrial Development Authority (PIDA), on the other hand, involves private lenders in a first mortgage for 50% of the funds needed at interest rates they set and then makes direct loans of up to 40% at a rate of 4%. A third mortgage of 10% or more is provided by the local industrial development autorities at a rate which may not exceed PIDA's, making this an effective program for coordinating state and local aims as well (1).

Despite the obvious decline in manufacturing and the opportunities for future growth offered by non-manufacturing sectors in the state, MIDFA has not adequately broadened its operation to fully include the latter in its program, although its legislation has been amended to allow it to do so. Out of the 62 loans in MIDFA's present portfolio, only three are not to manufacturing concerns or manufacturing-related warehousing (1).

It can be seen that the traditional bases for Marylan's competitive appeal to business and industry - strong consumer market, highly productive labor, above average public services - are being eroded, both by demographic trends and by rising costs which tend to negatively balance productivity and service advantages.

III. RECOMMENDED APPROACH TO STATE ECONOMIC DEVELOPMENT

Manufacturing employment declines and poor competitive position with regard to attracting and retaining business and industry make it imperative that Maryland undertake a balanced program for future economic development. It cannot be designed and implemented overnight, nor can desired results be guaranteed, but we must begin. Failure to evaluate, plan, and act can only lead to contined decline.

A. Recognizing the problem.

There must be a realistic appraisal by the Governor, his Cabinet, and the Legislature of the deteriorating status of the state's economy and its future prospects.

B. Flexible design.

The economic development program must be flexibly designed to accomodate changing economic conditions and structures. The analysis contained in the Task Force working papers indicates that the state's economy is undergoing significant structural change. The balance between various types of economic activity is shifting and requires careful program design. Existing manufacturing activity must be retained but opportunities in non-manufacturing sectors must not be jeopardized in the process.

C. Compensation for poor competitive position

The economic development program must pointedly address and seek to compensate for Maryland's poor showing with regard to the factors which influence the location of economic activity. Each of the factors listed in Section II should be studied for possible state remedial action. Can the state influence population movement, for example? To a limited extent, the answer is yes: a favorable image can be cultivated, using tourism advertising and promotion of amenities, or attention can be given to making the tax system less of a burden to individuals and families.

D. State economic regions.

The economic development program must be responsive to the varying needs of the several economic regions of the state. Baltimore, the Washington suburbs, the Eastern Shore, South Maryland, and Western Maryland all have strikingly different economic structures and require custom-made programs. The respective contributions of the state's two major metropolitan areas, Baltimore and Washington, to the economic health of the state should be further explored. Surrounding states offer structures similar to those of several of Maryland's non-metropolitan regions and can be profitably examined to seek program approaches.

E. Continuity.

The economic development program must be firmly established so that development efforts are continuous and consistent despite changing administrations. Economic development activities do not often pay off in an immediately specific manner which allows one to definitively link effort with the result; a Chicago company contacted today and next year and the following year by a Maryland representative may not decide to move for another five years, and Maryland business aided next week may only quietly benefit the state by not moving to Texas next year. Continuous, focused efforts to put the case for a Maryland location before out of state and international business executives and to retain existing business and industry are nevertheless essential.

F. Specific considerations for program development.

Policy direction from the state's chief executive is needed to give a coordinated focus to the Maryland Department of Economic and Community Development (DECD) and other state agencies, to financing program operation, and to local development activity. Economic and environmental concerns must be balanced, financing programs must be refocused to serve a targeted development policy, and local governments must be strongly urged to follow courses which will increase the state's economic vitality.

Gubernatorial leadership could effect a basic philosophical change on the part of administrative agencies in the state: from "you can't do that here" to "let's make it happen." The latter does not imply abandonment of attempts to protect the environment, but rather an outlook which seeks to encourage all types of economic activity within the context of sound environmental controls. A pervasive attitude shift along the lines described could do much to reverse the anti-business image the state has acquired, both outside its boundaries and within its own private sector community.

Essential to the informed policy leadership being advocated here is the continuous availability of rigorous analysis of the state's economy, particularly since it is dynamically reflecting larger regional and structural changes in the national economy. This critical monitoring of the state's economy and the economic impacts of new policies could be undertaken by a council of economic advisors, consisting of informed business and civic leaders and economic professionals, and staffed by DECD's Division of Research.

An assessment of the relationship of the entire state and local tax system in the state to its changing economic structure is needed in order to effectively design policies to address the rising fiscal blood pressure and heavy personal tax burdens described in the Task Force working papers.

Greater priority must be given to economic development in the budgeting process. Economic and community development together presently (1978 Appropriations) receive only $200,000 more than agriculture, the functional agency which receives by far the smallest portion of the state's general funds. Furthermore, the proposed 1979 budget shows no change in the low priority given economic development by the chief executive: DECD's recommended appropriation is slated to increase only .3 percent, to a total which is .26% of the state's budgeted general fund expenditures.[7] First priority in the use of any additional monies should be to insure that staff members charged with recruiting new businesses or servicing existing businesses be of highest caliber and compensated accordingly. It must also be clear that, in all their dealings, these individuals act as personal representatives of the Governor. It is clear that much of Virginia's favorable development image can be attributed to the impression conveyed to businessmen that the Governor completely supports the activities of the industrial development staff.

The state's development program, particularly if it is provided with only limited resources, must be targeted. Outreach, financial aid, assistance in meeting environmental standards, and other state programs must be used to focus on areas of opportunity in the state's economy. In order to retain and protect the manufacturing activity extant in the state, aid can be provided in at least three areas: in meeting sound environmental standards, or in seeking to change unsound standards, in adapting to the movement of domestic markets for products from the northeast to the sunbelt, and in marketing products

---

7 State of Maryland Executive Department, Budget Message to the General Assembly of Maryland and the Budget in Brief. Annapolis, January 18, 1978.

internationally. The latter two may be approached similarly; Maryland representatives seeking trade opportunities for the state's businesses may just as easily function in Atlanta or Dallas as in Brussels or Dusseldorf.

Outreach activities could be most profitably focused on the non-manufacturing private sector or to those manufacturing industries which have linkages to or the need for the strong services sector Maryland offers. The Port of Baltimore, if adequately maintained, also represents a competitive advantage in the attraction of industry.

The financial assistance programs should be examined to determine whether a single agency should more closely coordinate them in order to provide a centralized source of information and aid for local development agencies and businesses interested in financing. The programs should ideally operate in closer coordination with DECD, serving the same state development goals which are formulated for its operation and focusing on targeted sectors in a unified approach. MIDFA should be evaluated in terms of its appeal to private lender participants and amendatory legislation proposed if needed.

Because of limited knowledge in this field, the economic impact of environmental regulations and their enforcement should be monitored closely and necessary changes, of either regulation or attitude, undertaken by the Governor in conjunction with his administrative agency Secretaries. An individual at DECD should be designated and advertised as the person on whom businesses should call to guide them through the environmental permitting and regulation processes.

Freight rates and transportation regulation should be examined to determine the ways in which they put Maryland at a competitive disadvantage in serving southern markets and what action, if any, the leaders of the state and transportation industry representatives here should undertake to seek change in the situation.

Coordination of state and local development programs must be dramatically improved. This is perhaps the toughest challenge faced by policymakers and no easy solutions have presented themselves in the course of this study. Suggestions for fostering improved coordination include strong leadership by the Governor, including whatever use of the budgeting process is possible; vigorous programs to involve local government representatives in the formulation of state development policy; changes in local planning enabling legislation which would affirmatively require an economic development component in all local plans; and consideration of incentives, of both a financial and a service nature, which the state could offer the local governments in order to achieve greater coordination.

Certainly all economic development issues have not been exhausted in this brief overview. Substantial detail is provided in the Task Force working papers and investigation, planning, and discussion of economic development continue in many quarters. What the Task Force has hoped to impart via this summary is its conviction that economic development in the state needs immediate attention and leadership and that a thorough understanding of state economic structure and trends is a prerequisite to development of a rational and potentially effective development program. Finally, it must be said that the potential consequences of inaction are serious, as aspects of the state's present policies and enactments are currently operating to undermine rather than enhance economic vitality. This is clearly a job for which strong, responsible leadership in the public sector is urgently required, and anxiously awaited.

APPENDIX: MACGILL SURVEY OF SIGNIFICANT LOCATION DETERMINANTS

FIRM CODE	Industrial Market	Tie-in to existing facility	Political Attitude	Tax Structure	Land and Construction Costs	Union Considerations	Right to Work Law	Availability of Qualified Labor	Energy Sources and Cost	Financing IRB's	Government Concessions	Living Conditions
A[1]	1											
A[2]		1										
B			2	3	X	X		1				
C	1		3		X			2	X			
D	2			3	X		1					
E					X	2	1	3	X	X		X
F			2	X			1				3	
G			3	1			1	2				
H	1				2							
I				1		2						3
J				3		1	2					X
K	1					2						
L					2	1						
M				1		X		X	3		2	

KEY: 1,2,3 - First, second or third priority given to factor
X - Mentioned by respondent

is a prerequisite to development of a rational and effective development program. Finally, it must be said that the potential consequences of inaction are serious, as aspects of the state's present policies and programs are currently operating to undermine rather than enhance economic vitality. This is clearly a job for which strong, responsible leadership in the public sector is urgently required, and anxiously awaited.